BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Nebraska Public Service Commission, on its own motion, to make adjustments to the universal service fund mechanism established in NUSF-26	**Application No. NUSF-50** **Progression Order No. 2**

QWEST CORPORATION'S INITIAL COMMENTS TO PROGRESSION ORDER NO. 2

Qwest Corporation ("Qwest") submits its initial comments to Progression Order No. 1 entered February 28, 2006 (*"Progression Order No.2"*), as modified by the Commission's Order Extending Comment Deadline dated April 11, 2006, as follows:

Introduction: The Need to Coordinate Dockets

Qwest welcomes the opportunity to work with the Commission towards rationalizing a long-term solution to NUSF distributions. Before addressing the specific solutions proposed in this docket, however, Qwest wishes to reiterate comments it has made in other related dockets about the need for coordination of these dockets. Rationalizing the NUSF system needs to be done on a coordinated basis. Currently, there are four key dockets pending, any one of which could drastically affect the way NUSF support is distributed: three different subdockets in NUSF-50,[1] and Docket C-3554. All of these dockets are interrelated, because all fundamentally address the basis for NUSF distributions. The decision on these dockets, therefore, must be interrelated,

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[1] NUSF-50, NUSF-50 Progression Order No. 1, and NUSF-50 Progression Order No. 2.

and the Commission's decision process in any one docket should take all four dockets into account. Deciding one of these dockets without properly taking into account the factors that drive the other three could create further inefficiencies and inequities in the NUSF. With respect to this specific docket, all of the proposed solutions must be coordinated as well, though it appears the model proposed in this docket could be easily adapted to use current rates, or use any TELRIC-based rate determined in Docket C-3554, should that docket result in changes to Qwest's current unbundled loop rates and/or zones.

Substantive Comments

One of the key problems with the Commission's final order in Docket NUSF-26 was that it continued porting to CLECs for business and residential lines for which incumbents like Qwest receive no support. As the Commission observed in that docket, high cost support is to be targeted to out-of-town households – that is, residential lines. The NUSF-26 system does not provide support for business lines or for in-town lines of any type. However, Qwest's records indicate that more than 99% of the lines for which CLECs receive ported support are located in town areas for which Qwest receives no support. This creates competitive inequities and misdirects more than $10,000,000 per year to CLECs for serving in-town residential and business customers. Thus, without a change in the porting system, once the transitional mechanisms ordered in Docket NUSF-26 expire, Qwest will receive less than $4,000,000 in support, while CLEC porting would remain unaffected. This solution is not "sufficient" or "competitively neutral" as required by state and federal USF statutes. Potentially compounding these inequities is the threat of even further reductions in NUSF-26 distributions in light of last year's reductions in the NUSF surcharge.

The Porting Method ("PM") proposal outlined in *Progression Order No.2* generally seems to remedy these problems by making sure that support is ported only for out-of-town residential areas for which the Commission has already decided should receive the limited funds available, and also appears to reduce the amount of support that would be ported as and if incumbent support is reduced. The proposed methodology will encourage CLECs to serve the out-of-town areas the NUSF is intended to support, and avoid creating perverse incentives for serving customers in Zones 2 and 3.[2] However, Qwest has some concerns.

First, Line 1 of Attachment A to *Progression Order No.2* – the "Loop Revenue Benchmark" – needs to be more clearly and accurately defined for each carrier, and updated to include current information. The figure in Attachment A seems to be derived from Qwest's revenue benchmark from NUSF-26. However, that calculation does not reflect Qwest's current SLC, which is $4.91 (*See* **Exhibit A** attached hereto, which is the applicable page from Qwest' FCC tariff).

Second, the Monthly NUSF Support from Line 7 must be updated to reflect current NUSF-26 distributions to the incumbent, as proposed in paragraph 8 of *Progression Order No.2*. Moreover, the amounts used to compute Line 7 must come only from NUSF-26-based high cost support. Qwest has been ordered to make certain

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[2] Under the current NUSF-26 porting system, CLECs pay $62.49 for a loop in Qwest's Zone 3, but for residential customers receive $69.59 in porting funds taken from Qwest's distribution. This means that Qwest pays CLECs more than seven dollars each month for each residential customer Qwest loses to competition in Zone 3. Even for business customers acquired before November 2004, CLECs pay less than six dollars (net) for each loop they acquire (TELRIC rate of $62.49 less ported support of $56.87, or $5.62). Meanwhile, Qwest receives no support for more than 99% of these lines.

specific infrastructure investments in Docket NUSF-7.07, and receives reimbursement from the NUSF for these investments. CLECs do not share Qwest's obligations to make the directed investments, and porting NUSF-7 support away from incumbents receiving such support would undermine those projects and conflict with the orders providing for distributions to cover the specified investments. It appears that the Porting Method only ports NUSF-26 high cost funds, but the Commission should ensure and clarify that only NUSF-26 high cost support should be ported, regardless of the system ultimately implemented.

Dated Thursday, May 25, 2006.

Respectfully submitted,

QWEST CORPORATION

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Certificate of Service

I certify that a true and correct copy of the Qwest Corporation's NUSF-50 Reply Comments was sent via electronic mail and First-class U.S. mail and electronic mail on May 25, 2006 to the following:

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